

February 19, 1999

To: Board of Directors (Budget and Finance Committee--Action)

From: General Manager _____

Submitted by: Debra C. Man, Chief _____
 Planning and Resources

Subject: Recommended Water Rates and Charges for Fiscal Year 1999-00 to Become Effective January 1, 2000 and Resolutions to Impose Charges

RECOMMENDATIONS

It is recommended that the Board:

1. Adopt the following water rates and charges for Fiscal Year 1999-00 to become effective January 1, 2000, as required by Administrative Code Section 4304:

Effective January 1, 2000

<u>Class of Service</u>	<u>Rate or Charge</u>
Full Service—Untreated	\$349 per AF*
Full Service—Treated	\$431 per AF
Agricultural—Untreated	\$236 per AF
Agricultural—Treated	\$294 per AF
Seasonal Storage, Long-Term—Untreated	\$233 per AF
Seasonal Storage, Long-Term—Treated	\$290 per AF
Seasonal Storage, Shift—Untreated	\$266 per AF
Seasonal Storage, Shift—Treated	\$323 per AF
Reclaimed	\$113 per AF
Connection Maintenance Charge	\$50 per cubic feet per second of capacity per month, not to exceed a maximum charge per connection of \$5,000 per month

* AF = acre-foot

2. Approve the following resolutions:
 - Resolution to fix and adopt the Readiness-to-Serve (RTS) charge for Fiscal Year 1999-00 in the form shown as Exhibit B to this letter.
 - Resolution of intention to impose a new demand charge (NDC) at the current level and suspend collection of the charge for Fiscal Year 1999-00, in the form shown as Exhibit C to this letter.

3. Find that the setting of rates and charges recommended in this letter is exempt from the California Environmental Quality Act (CEQA) by Public Resources Code Section 21080(b)(8) since it is for the purposes of: (a) meeting operating expenses, (b) purchasing or leasing supplies, equipment or materials, (c) meeting financial reserve needs and requirements, and (d) obtaining funds for capital projects necessary to maintain service within existing service areas; and, additionally, it is exempt from CEQA under State CEQA Guidelines 15378 (b)(5) since it constitutes the creation of government funding mechanisms which does not involve commitment to any specific project which may result in a potentially significant physical impact on the environment or which will be used to fund projects which have CEQA documentation or which will have CEQA documentation in place prior to construction of any facility or facilities.

EXECUTIVE SUMMARY

The proposed rates and charges for Fiscal Year 1999-00 are the same as those currently assessed by Metropolitan, with the exception of the Seasonal Shift rate. The Seasonal Shift rate is proposed to increase by \$11 per acre-foot (AF), consistent with the Rate Refinement recommendations and Board action of July 1996.

In December 1998, the Budget and Finance Committee considered and approved the General Manager's determination of the revenues to be derived from water sales during Fiscal Year 1999-00 in Board Letter 8-1, entitled "Revenue Requirements for Fiscal Year 1999-00" (Revenue Requirements Letter). In January 1999, the Budget and Finance Committee approved the Resolution of Intention to Impose the Readiness-to-Serve (RTS) Charge and New Demand Charge (NDC). Comments from the public on the proposed rates and charges received at the February 8, 1999 public hearing are included in Exhibit A.

In July 1996, the Board adopted a five-year rate plan and rate management objective that set a cap on annual increases in rates and charges of three percent. In addition, the Board and the Rate Refinement Team recommended that Metropolitan increase fixed revenues over the five-year period beginning in 1997, since Metropolitan would be increasing its fixed obligations (principally debt service) to finance the capital program. The plan adopted at that time included an increase in the RTS Charge of \$8 million per year from 1997 through 2001, in order to increase the fixed charges available to cover Metropolitan's fixed costs. However, last year, strong financial performance and the success of cost containment efforts allowed the Board to defer, by one year, the planned increases in the RTS Charge.

This letter recommends that the Board again defer, for an additional year, the planned increases of the RTS charge. Deferring the increases in the RTS charge for one year would increase the expected use of reserves in Fiscal Year 1999-00 by about \$4 million. Deferral of the RTS Charge increase for Fiscal Year 1999-00 would, over the next five years, require the use of about \$24 million in reserves. At this time it is expected that adequate reserves will be available to fund the deferral of the RTS Charge increases. Under this recommendation, the RTS Charge would not increase by \$8 million on January 1, 2000 and would remain at a total level of \$80 million for Fiscal Year 1999-00. Deferring the RTS Charge increase allows time for the Board to consider input from the Strategic Planning Process and any resulting changes to Metropolitan's long-term rate structure. The RTS Charge resolution (Exhibit B) reflects the recommendation to defer the

scheduled increase in the RTS Charge by one year. Continuation of the standby charge is recommended for those agencies who utilize this charge as an offset against their RTS Charge.

Furthermore, it is recommended that all other rates and charges, with the exception of the Seasonal Storage Shift rates, remain unchanged. Consistent with the Board's five year plan to transition the Seasonal Storage Shift discount to a level that reflects the estimated benefits provided by the program, it is proposed that the Seasonal Storage Shift rate be raised by \$11 per AF on January 1, 2000. This recommendation results in a total average increase in all rates and charges of 0.2 percent, well below the rate management objective of three percent adopted by the Board in July 1996.

A five-year projection of Metropolitan's costs, revenues and water sales is shown in Attachment A. Projected rates and charges are included in Attachment B and preliminary RTS Charges are shown on Attachment C. The increases in projected water rates are significantly less than those included in the Rate Refinement Process (RRP) Phase 1 recommendations. Over each of the next three years, increases in the Seasonal Storage Shift water rates are expected. Increases in the treatment surcharge are currently expected by 2003, however, variations in sales levels and actual costs may cause these increases to occur sooner in the planning horizon.

Additionally, the NDC resolution (Exhibit C) fixes the NDC at its existing level but suspends collection of the charge, consistent with the recommendation from Phase 1 of the RRP.

DETAILED REPORT

Administrative Code Section 4304(c) requires the General Manager to present recommendations for water rates for the next fiscal year based on the Budget and Finance Committee's determination of required water revenues. In December 1998, the Budget and Finance Committee considered and approved the General Manager's determination of the revenues to be derived from water sales during Fiscal Year 1999-00 in Board Letter 8-1, entitled "Revenue Requirements for Fiscal Year 1999-00" (Revenue Requirements Letter). In January 1999, the Budget and Finance Committee received the General Manager's recommendations for water rates and charges for Fiscal Year 1999-00 and set a time and place for a public hearing. Also in January, the Resolutions of Intent to impose the Readiness-to-Serve Charge (including the water standby charge) and the New Demand Charge (NDC) (and suspend collection of the NDC) in Fiscal Year 1999-00 was approved. A public hearing on water rates and charges was conducted on February 8, 1999, and comments received at this hearing are included in Exhibit A.

A public hearing on the water standby charge will be held in April, and the Board will consider the Resolution to impose the Fiscal Year 1999-00 water standby charge in May 1999.

The Revenue Requirements Letter shows that \$696.8 million of revenue must be recovered from the sale of water. The rates and charges that must be levied during the next fiscal year to generate this required revenue are described below.

Readiness-to-Serve Charge (RTS)

The RTS Charge recovers a portion of the principal and interest payments on non-tax supported debt service that has been or will be issued to fund capital improvements necessary to meet the continuing reliability and water quality needs associated with current demands. The RTS Charge is required to provide a portion of the revenue necessary to cover non-tax supported debt service payments associated with the bonds issued to fund construction of the Eastside Reservoir Project, Inland Feeder, and other projects that rehabilitate and improve Metropolitan's transmission and storage system. Recognizing the need to increase fixed revenue and reduce the dependency on water sales revenues, the RRP Phase 1 recommendations, approved by the Board in July 1996, included a five-year schedule of stepped increases in the RTS Charge to develop fixed revenues of \$104 million by Fiscal Year 2000-01. Although it is possible to defer an increase in the RTS Charge for one year, the need to provide a long-term solution to the issue of Metropolitan's dependence on variable water sales revenues is no less important today.

In Fiscal Year 1996-97, the RTS Charge covered approximately 60 percent of the non-tax supported debt service costs. At its current level, the RTS Charge will cover approximately 39 percent of non-tax supported debt service for Fiscal Year 1999-00. Non-tax supported debt service is projected to increase to \$283 million by Fiscal Year 2004-05. Left at the current level of \$80 million through Fiscal Year 2004-05, the RTS Charge would then only cover about 28 percent of the non-tax related debt service costs. This projected lower level of cost recovery from the RTS Charge is not consistent with the Board's intention, of better matching fixed costs and fixed revenue and reducing the dependency on variable water sales revenues, nor is it consistent with the RRP recommendations of July 1996. However, given Metropolitan's current financial position it is possible to defer the increase for a year without significant impact on the Fiscal Year 1999-00 financial position.

Deferring the RTS Charge increase provides time for the Board to consider input from the Strategic Planning Process and allows the Board to consider long-term rate structure options without immediate impact to the member agencies and their customers. However, it should be noted that water revenues for Fiscal Year 1999-00 are based on an increase of over 200,000 acre-feet (AF) of water sales over current year estimates, and use of stabilization funds in 1998-99 through 2001-02 are projected to total \$115 million (despite the scheduled increases in the RTS in 2001, and 2002.)

Expected financial performance in Fiscal Year 1999-00 provides the Board the opportunity to defer for one year the planned increases in the RTS Charge despite low sales and increased debt service costs, which are combining to weaken key financial indicators. As financing costs of the capital improvement program continue to increase, key financial indicators such as revenue bond debt service coverage and fixed charge coverage will continue to decline. These estimates include increases in water sales from 1.55 million acre-feet (MAF) in the current year to 2.1 MAF by 2003-04. This is a 33 percent increase in sales over the next five years. The risk to Metropolitan is that if these sales increases do not occur, significant unplanned draws from reserves may be required, which could have an adverse impact on future rate increases and on Metropolitan's financial indicators.

For example, without the planned increases in the RTS Charge, Metropolitan's fixed charge coverage is expected to decline from an estimated 1.20 in Fiscal Year 1998-99 to 1.15 by Fiscal Year 1999-00. This financial ratio indicates the degree to which net revenues (defined as

total revenues less O&M expenditures) exceed, or cover all recurring fixed costs. For Metropolitan, these costs include all non-tax funded debt service, State Water contract payments and capital improvements related to the Colorado River Aqueduct. The fixed charge coverage ratio is a key indicator of Metropolitan's financial strength, as it indicates Metropolitan's ability to fund all annually recurring costs, from recurring revenues, without utilizing reserves. The revenues that remain after funding these recurring fixed costs may then be used for Metropolitan's Pay-As-You-Go Program or for any other lawful purpose. The financial rating agencies (e.g., Moody's Investors Service and Standard and Poors) have indicated that stronger coverage levels are preferred. The pending update of the Long-Range Finance Plan includes a recommendation that Metropolitan set a goal of maintaining fixed charge coverage of 1.20. The recommendation to defer the RTS Charge increase for one year is expected to generate fixed charge coverage of 1.15 in Fiscal Year 1999-00.

The RTS Charge is allocated to each member agency on the basis of average historic water purchases from Metropolitan, including sales for consumptive demands, agriculture, and storage. For Fiscal Year 1997-98 through Fiscal Year 2000-01, an agency's share of the RTS Charge is based on the average of Metropolitan's sales in Fiscal Year's 1993-94, 1994-95, and 1995-96, less certain long-term storage water as more particularly described in Exhibit B, Section 8.

The RTS Charge resolution of the Board to fix and adopt the RTS Charge at the current level of \$80 million without an increase on January 1, 2000, and notifying the member agencies of this intention is attached as Exhibit B.

Seasonal Storage Shift Rate

The Seasonal Storage Shift rate is proposed to increase \$11 per AF to \$266 per AF for untreated water and \$323 per AF for treated water. The RRP Phase 1 recommended that the Seasonal Storage Shift rate be more closely aligned with the benefits of shifting purchases from summer to winter. This recommendation was approved by the Board in July 1996, and is reflected in the proposed rate change.

Standby Charge

During the process to establish the rates and charges for Fiscal Year 1995-96, member agencies were provided the option to request that Metropolitan impose a standby charge on parcels of land in the agency's service area. Standby charge collections from member agencies that opted to retain the standby charge will be credited against the member's RTS Charge obligation. Any standby charge revenues in excess of the member agency's RTS Charge obligation will be credited to the agency's other obligations to Metropolitan or carried forward to next year. **Any member agency for whom Metropolitan currently imposes a standby charge and who no longer wishes to have the charge imposed must notify Metropolitan by letter, which must be delivered to the Chief of Planning and Resources no later than March 1, 1999.**

The Board will hold a public hearing in April, 1999, for interested parties to present comments or protest the proposed water standby charge. It is anticipated that the Board will take action on the proposed standby charges at its meeting on May 11, 1999.

The resolution to fix and adopt the RTS Charge (and, within specified member agencies, standby charges to be used as credits against the RTS Charge) also establishes the criteria under which

certain lands may be exempt from the standby charge. Lands that were exempt from standby charges for prior years will continue to be exempt and those property owners will not be required to refile exemption requests.

New Demand Charge (NDC)

The NDC was designed to recover the capital costs associated with meeting new demands on Metropolitan's system. The proposed NDC would remain unchanged from that assessed in Fiscal Year 1995-96 and Fiscal Year 1996-97 at \$1,000 per acre-foot. The resolution (Exhibit C) fixes the NDC at its existing level but suspends collection of the charge, consistent with the recommendations from Phase 1 of the RRP. Unless an alternative method to assign the costs of new growth on Metropolitan's system is implemented, the collection of the NDC will resume at the time normal system demands exceed 2.2 million acre-feet.

Metropolitan's Nexus Study dated March 1996 which documents the nexus between NDC and Metropolitan's anticipated capital projects is in file with the Executive Secretary and is available upon request.

Wheeling Rates

Pending an appeal of the Superior Court's decision not to validate system wide wheeling rates adopted by the Board in January 1997, it is recommended that Metropolitan consider requests for wheeling service on a case by case basis.

Other Rates and Charges

As cited earlier, it is recommended that the full service rate, agricultural rate, long-term seasonal storage rate, reclaimed water rate and treatment surcharge remain unchanged in Fiscal Year 1999-00. It is also recommended that the connection maintenance charge remain unchanged at \$50 per cubic foot per second.

A five-year projection of Metropolitan's costs, revenues and water sales is shown in Attachment A. In addition, forecasts of rates and charges are included in Attachment B. The increase in projected water rates is less than those included in the RRP Phase 1 recommendations, as no rates, except the Seasonal Storage Shift rates, are forecast to increase through Fiscal Year 2000-01.

The recommendations made in this letter are exempt from the California Environmental Quality Act (CEQA) by Public Resources Code Section 21080(b)(8) because since they recommend setting of rates and charges for the purposes of: (1) meeting operating expenses, (2) purchasing or leasing supplies, equipment or materials, (3) meeting financial reserve needs and requirements, and (4) obtaining funds for capital projects necessary to maintain service within existing service areas; and, additionally, it is exempt from CEQA under State CEQA Guidelines 15378 (b)(5) since it constitutes the creation of government funding mechanisms which do not involve

commitment to any specific project which may result in a potentially significant physical impact on the environment or which will be used to fund projects which have CEQA documentation or which will have CEQA documentation in place prior to construction of any facility or facilities.

CMM:cl

Attachment 9-1A

Attachment 9-1B

Attachment 9-1C

Exhibit A

Exhibit B

Exhibit C

Attachment 9-1A

ATTACHMENT A

1999-00 REVENUE REQUIREMENTS

(Cash Basis: \$ in thousands)

	Projected	→				
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Expenditures						
State Water Contract	\$ 257,337	\$ 287,103	\$ 298,970	\$ 320,024	\$ 346,950	\$ 342,045
Colorado River Aqueduct	26,504	35,009	44,775	48,174	47,872	49,793
Deposit to Transfer Fund	24,000	10,000	-	-	-	-
Withdrawal from Transfer Fund for ESRP Fil	-	(19,153)	(22,533)	(3,240)	-	-
Water Management Programs	25,417	30,106	36,659	42,791	44,702	45,457
Capital Program Financing	355,011	354,123	365,588	373,155	363,137	373,128
O&M and Operating Equipment	<u>220,500</u>	<u>214,671</u>	<u>218,925</u>	<u>223,263</u>	<u>227,688</u>	<u>238,332</u>
Sub-Total Costs	908,769	911,859	942,385	1,004,167	1,030,350	1,048,755
Adjustments						
Increase/(Decrease) in Required Reserves	<u>(25,755)</u>	<u>4,125</u>	<u>17,745</u>	<u>17,651</u>	<u>532</u>	<u>803</u>
Total Obligations	883,014	915,984	960,129	1,021,818	1,030,882	1,049,558
Less Other Revenues						
Property Taxes	(85,958)	(87,677)	(89,431)	(91,219)	(93,044)	(93,543)
Interest Income	(43,520)	(37,665)	(38,960)	(39,459)	(40,876)	(42,048)
Power and Miscellaneous Revenue	(16,648)	(16,603)	(17,053)	(17,362)	(17,486)	(17,813)
Contracts	-	-	-	-	-	(658)
Readiness to Serve Charge	(80,000)	(80,000)	(84,000)	(92,000)	(100,000)	(104,000)
Connection Maintenance Charge	<u>(3,001)</u>	<u>(2,978)</u>	<u>(2,978)</u>	<u>(2,978)</u>	<u>(2,978)</u>	<u>(2,978)</u>
Sub-Total Other Revenues	(229,127)	(224,923)	(232,422)	(243,019)	(254,384)	(261,040)
Total Water Revenue Requirement	653,887	691,061	727,707	778,799	776,498	788,518
Water Sales Revenue	600,035	673,045	704,933	757,261	786,206	803,464
Increase (Decrease) in WRSF Balance	(53,852)	(18,016)	(22,774)	(21,538)	9,708	14,946
Water Sales (Cash Year TAF)						
Basic Treated	1,005	1,047	1,073	1,147	1,175	1,193
Basic Untreated	294	332	331	358	377	382
Seasonal Treated	123	126	194	213	229	232
Seasonal Untreated	53	157	139	149	161	164
Agricultural Treated	61	85	101	109	110	109
Agricultural Untreated	<u>15</u>	<u>23</u>	<u>18</u>	<u>17</u>	<u>17</u>	<u>17</u>
Total	1,551	1,769	1,857	1,993	2,069	2,097

Note: If a financing for the Headquarters Building occurs, then the General Fund will be reimbursed. This will result in higher year end reserve levels.

Attachment 9-1B

ATTACHMENT B
PROJECTED RATES AND CHARGES (Effective January 1)
 (Cash Basis: \$ in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Readiness to Serve Charge	\$ 80,000	\$ 80,000	\$ 88,000	\$ 96,000	\$ 104,000	\$ 104,000
Connection Maintenance Charge	\$ 3,001	\$ 2,978	\$ 2,978	\$ 2,978	\$ 2,978	\$ 2,978
<u>WATER RATES (\$/AF)</u>						
Basic Treated	\$431	\$431	\$431	\$431	\$435	\$439
Basic Untreated	\$349	\$349	\$349	\$349	\$349	\$349
Seasonal Long-Term Treated	\$290	\$290	\$290	\$290	\$294	\$298
Seasonal Shift Treated	\$312	\$323	\$334	\$346	\$350	\$354
Seasonal Long-Term Untreated	\$233	\$233	\$233	\$233	\$233	\$233
Seasonal Shift Untreated	\$255	\$266	\$277	\$289	\$289	\$289
Agricultural Treated	\$294	\$294	\$294	\$294	\$298	\$302
Agricultural Untreated	\$236	\$236	\$236	\$236	\$236	\$236

Note:

Rates are based on current cost projections and projections of increasing water sales. Variations in these projections could occur, but it is expected that future rates will remain within the objectives of Phase I of the Rate Refinement Process.

Attachment 9-1C

Attachment C

PRELIMINARY 1999-00 RTS CHARGE

Member Agency	3-Year Average Demands (Acre-Feet) ¹	RTS Share	6 months of \$80 million 7/99-12/99	6 months of \$80 million 1/00-6/00	Total RTS Charge Revenues	Estimated Gross Standby Charge Revenues AT Existing Parcel Rates
Anaheim	18,709	1.24%	494,708	494,708	989,416	583,776
Beverly Hills	12,941	0.86%	342,189	342,189	684,379	
Burbank	16,523	1.09%	436,905	436,905	873,811	399,018
Calleguas	87,849	5.81%	2,322,926	2,322,926	4,645,852	2,343,589
Central Basin	69,047	4.56%	1,825,759	1,825,759	3,651,517	3,532,031
Chino Basin	34,369	2.27%	908,794	908,794	1,817,588	1,678,178
Coastal	39,958	2.64%	1,056,580	1,056,580	2,113,160	983,209
Compton	3,725	0.25%	98,497	98,497	196,995	161,394
Eastern	48,240	3.19%	1,275,575	1,275,575	2,551,149	2,608,063
Foothill	7,961	0.53%	210,507	210,507	421,014	309,969
Fullerton	7,457	0.49%	197,180	197,180	394,360	353,238
Glendale	26,456	1.75%	699,556	699,556	1,399,113	544,006
Las Virgenes	18,014	1.19%	476,331	476,331	952,662	509,865
Long Beach	42,539	2.81%	1,124,827	1,124,827	2,249,655	1,073,039
Los Angeles	164,220	10.86%	4,342,348	4,342,348	8,684,696	
MWDOC	177,584	11.74%	4,695,722	4,695,722	9,391,445	5,947,355
Pasadena	14,824	0.98%	391,980	391,980	783,960	431,697
San Diego	407,484	26.94%	10,774,798	10,774,798	21,549,596	12,160,774
San Fernando	106	0.01%	2,803	2,803	5,606	40,539
San Marino	1,327	0.09%	35,089	35,089	70,178	40,970
Santa Ana	12,633	0.84%	334,045	334,045	668,090	419,723
Santa Monica	5,008	0.33%	132,423	132,423	264,846	
Three Valleys	58,267	3.85%	1,540,711	1,540,711	3,081,422	1,846,451
Torrance	20,311	1.34%	537,069	537,069	1,074,137	461,748
Upper San Gabriel	7,163	0.47%	189,406	189,406	378,812	1,934,485
West Basin	153,155	10.12%	4,049,764	4,049,764	8,099,529	
Western	56,860	3.76%	1,503,507	1,503,507	3,007,014	3,290,212
MWD	1,512,730	100.00%	\$ 40,000,000	\$ 40,000,000	\$ 80,000,000	\$ 41,653,330

(1) Acre-Foot Sales used for purposes of calculating RTS shares

Exhibit A**PUBLIC HEARING COMMENTS AND REPLIES**

Oral statements made at the public hearing held on February 8, 1999, are transcribed below:

Matt Stone, Municipal Water District of Orange County (MWDOC).

“Thank you Mr. Chairman, ladies and gentlemen of the committee. My name is Matt Stone, I’m Associate General Manager with the Municipal Water District of Orange County. I’m here today not so much to address the current, immediate action, but to point it out in the context of an ongoing debate and dilemma that we’ve had at Metropolitan since at least 1969, when a report was commissioned by an engineer by the name of Skinner, some of you may be familiar with, who recommended a demand commodity rate structure for the Metropolitan Water District to help ensure coverage of fixed costs. I’ll skip the intervening years up through 1994 when this Board adopted a new rate structure with a targeted \$240 million phase-in of the readiness-to-serve charge. The schedule on that proved to be a little aggressive for the acceptance of the member and retail agencies. The rate refinement process kind of phased back for the first five years to a target of \$104 million with the commitment to bring back fixed commitments and/or contracts among the member agencies within a five year period. That clock is still ticking, we’re in year three, and we haven’t reached closure yet on that issue. So today I’m just putting on the radar screen for this committee I think a very important issue which is to reach that closure on fixed charges. We think that Metropolitan should really be seeking with the Board and the member agencies some kind of agreeable concept for a fixed charge or other forms of commitment that would be linked to dry year system needs. We have spent a lot of time complaining about cost-shifting over the last two years, either on the San Diego agreement or on folks who develop new local resources or want to transfer water in or for folks who roll on and off the system. But we really are hypocrites if we continue to rail away at cost-shifting and do nothing about fixing our own rate structure so that it is, in effect, resistant to cost-shifting. We would recommend that the Board really pursue increasing fixed charges and perhaps accompany that with a corresponding reduction in the water rates and the wheeling rates. I thank you very much for your time.”

Additional written comments regarding the proposed water rate and charges were received by the following member agencies and are included in this exhibit:

Christine Frahm, Board Member, San Diego County Water Authority, January 8, 1999

David Freeman, General Manager, Department of Water & Power, Los Angeles, December 18, 1998

Donald Kendall, General Manager, Calleguas Municipal Water District, November 30, 1998

PATRICK H. MILLER, PRESIDENT
DIVISION 4

WILLIAM R. SEAVER, DIRECTOR
DIVISION 5

JEFFREY A. BORENSTEIN, TREASURER
DIVISION 2



TED GRANDSEN, VICE-PRESIDENT
DIVISION 1

DONALD G. HAUSER, SECRETARY
DIVISION 3

DONALD R. KENDALL, PH.D., P.E.
GENERAL MANAGER

web site: <http://www.calleguas.com>

2100 OLSEN ROAD • THOUSAND OAKS, CALIFORNIA 91360-6800 805/526-9323 • FAX: 805/522-5730 • FAX: 805/526-3675

November 30, 1998

Mr. Bert Becker
Chief Financial Officer
Metropolitan Water District of Southern California
350 S. Grand Avenue
Los Angeles, CA 90054-0143

Subject: Revenue Requirements Letter for Fiscal Year 1999—2000
(Pending Board Letter 10-1)

Dear Bert:

We have recently reviewed the Pending Revenue Requirements Letter for Fiscal Year 1999-00 and appreciate the opportunity to provide input early in the budget and rate setting process for the 1999-00 fiscal year.

We have some concerns about the overall revenue program, since the proposed increase in the Readiness to Serve Charge (RTS) will result in an "effective" water rate increase for the member agencies. Given the current level of Metropolitan's reserves, we do not believe that any type of rate increase is justified at the current time. In fact, it is our opinion that MWD's effective rates and charges may need to be reduced to provide for a phased reduction in current reserve levels.

The Revenue Requirements Letter includes a proposed \$8 million increase in the RTS charge, which would result in a RTS charge of \$88 million for the calendar year 2000. This is in accordance with the recommendations agreed to in the rate refinement process and approved by MWD's Board in July 1996. The RTS charge is being phased and is proposed to increase to a maximum of \$104 million in fiscal year 2002-03. Last year however, because of favorable conditions in Metropolitan's financial picture, the

Mr. Bert Becker
November 30, 1998
Page 2

Board voted to defer the proposed \$8 million increase in the RTS, which was scheduled for January 1998, thus maintaining it at \$80 million for 1999.

Last year, your staff presented three rate alternatives for consideration by the Board. They were as follows:

- Alternative No. 1 - Increase RTS by \$8 million
- Alternative No. 2 - Increase RTS by \$8 million and reduce water rates to offset the RTS increase
- Alternative No. 3 - Defer the increase in the RTS by one year

The staff report indicated that the opportunity to reduce rates was based on MWD's "strong financial performance during the current fiscal year resulting from Metropolitan's continued cost containment efforts, a favorable interest rate environment, and lower State Water Project costs". We would submit that this statement is still true, and that rates should be held at last year's levels and possibly reduced for the coming year if the Board chooses.

At a minimum, we recommend that the proposed increase in the scheduled RTS charge be deferred for an additional year and that the RTS charge be maintained at \$80 million for calendar year 2000. This will result in a \$4 million decrease in the proposed revenues as outlined in the pending Revenue Requirements Letter for FY 1999-00. However, given Metropolitan's current reserve levels, this can easily be funded from reserves and will allow the District to present a "revenue neutral" program for the next fiscal year. It is our opinion that MWD should not be raising rates at the current time given the level of reserves (which are already a target of the Legislature) as well as the ongoing discussions regarding Metropolitan's strategic plan and governance. It is also our opinion that your Board should send a strong signal that Metropolitan intends to remain price competitive, while maintaining a strong financial position.

It is also recommended that the "Draft Long-Range Financial Plan" be revisited prior to making decisions about future rates and charges. There are a number of unresolved major policy issues, which collectively could have significant financial impacts on MWD. Specifically, it is our opinion that the following issues fall in this category:

- Cal Fed Improvements
- Untimely Disclosure of Eastside Reservoir Cost Increases
- Headquarters Building Financing

We would recommend that an analysis be prepared to determine the potential financial impacts on MWD considering the range of variables involved in each of these programs. This analysis should also address potential impacts on water rates and reserve levels. We believe that this approach will provide a better framework for making financial

*Mr. Bert Becker
November 30, 1998
Page 3*

decisions as well as providing adequate information for the Board to make decisions regarding commodity rates and other revenue sources for the 1999-00 FY as well as future years.

We appreciate the opportunity to provide input on the Revenue Requirements Letter. Please give me a call if you have any questions or would like to discuss this further.

Sincerely,



Donald R. Kendall
General Manager

Department of Water and Power



the City of Los Angeles

RICHARD J. RIORDAN
Mayor

Commission
RICK J. CARUSO, *President*
MARCIA F. VOLPERT, *Vice President*
KENNETH T. LOMBARD
JUDY M. MILLER
DOMINICK W. RUBALCAVA
IRENE N. KISHI, *Secretary*

S. DAVID FREEMAN, *General Manager*

December 18, 1998

Mr. Bert Becker
Chief Financial Officer
Metropolitan Water District
of Southern California
P. O. Box 54153
Los Angeles, CA 90054-0153

Dear Mr. Becker:

Revenue Requirements for Fiscal Year 1999-00

We appreciate the opportunity to review the Metropolitan Water District of Southern California's (MWD) Fiscal Year 1999-00 Revenue Requirements letter, and offer the City of Los Angeles Department of Water and Power's recommendation for your consideration.

Given MWD's favorable financial condition and MWD staff's budget projections for the next five years, we strongly request that the proposed \$8 million increase to the Readiness to Serve (RTS) charge on January 1, 2000 be deferred.

As you may recall, the intent of incremental increases to the RTS charge was to maintain consistency with anticipated increases to the water commodity charge, thus providing for some level of direct proportionality to fixed and variable revenues collected by MWD. However, as your November 13, 1998 letter to MWD's Board of Directors indicates, water rates have not gone up as expected and are anticipated to remain the same through at least 2002, and possibly longer if the favorable financial conditions continue. We are cognizant of the fact that the last two years of no rate increases to MWD's basic water services are primarily attributable to your management team's cost-containment measures, and extend our appreciation for this accomplishment.

Action to defer this proposed water rate increase reaffirms MWD's commitment to providing the best service at the lowest cost to its customers, while maintaining its status as a revenue neutral organization.

Water and Power Conservation . . . a way of life

111 North Hope Street, Los Angeles, California Mailing address: Box 51111, Los Angeles 90051-0100
Telephone: (213) 367-4211 Cable address: DEWAPOLA FAX: (213) 367-3287

Recyclable and made from recycled waste. A standard recycling symbol consisting of three chasing arrows forming a triangle.

Mr. Bert Becker

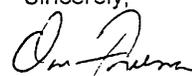
-2-

December 18, 1998

Finally, we believe that the situation we are in is a desirable one, and we encourage your management team to continue the strong cost containment and financial management efforts to minimize future rate increases to the member agencies.

Thank you for your consideration. If you have any questions or would like to discuss this further, please call Mr. Gerald A. Gewe at (213) 367-1022.

Sincerely,



S. DAVID FREEMAN
General Manager

c: LA MWD Directors (via fax)
Mr. Gerald A. Gewe



San Diego County Water Authority

A Public Agency

3211 Fifth Avenue • San Diego, California 92103-5718
(619) 682-4100 FAX (619) 297-0511

January 8, 1999

VIA FACSIMILE ONLY

Mr. Jorge Castro
Chairman, Budget and Finance Committee
Metropolitan Water District of Southern California
P. O. Box 54153
Terminal Annex
Los Angeles, California 90054

Dear Jorge:

January Board Item 8-1 – Rates and Charges

Our delegates had an opportunity today to review the recommended water rates and charges for Fiscal Year 1999-00. We will support staff's recommendation to maintain all rates and charges, with the exception of Seasonal Service Shift rates, the same as last year. We agree with the analysis that adequate reserves will be available to warrant another year of deferment of planned increases of the readiness-to-serve (RTS) charge.

At the same time, we believe it is critical that Metropolitan develop an effective long-term revenue structure so that its fixed revenues will better match its fixed costs. Although the RTS charge was an attempt to address this issue, clearly, it has not accomplished what is needed.

Unless a good strategy is developed to better match Metropolitan's fixed revenues with fixed costs, there will be continued inequity as member agencies roll on and off the system built to accommodate their peak demands. We look forward to participating in the development of such a strategy and look forward to you bringing the leadership necessary to solve this problem.

Give me a call if you have any questions.

Yours truly,

Chris Frahm

S:\wp\pwwd\delegates\rates & charges 99-00.doc

MEMBER AGENCIES

CITIES
• Del Mar • Escondido • Imperial City
• Oceanside • Poway • San Diego

IRRIGATION DISTRICTS
• San Jacinto • South Bay
• Vista

WATER DISTRICTS
• Mesa • Otay
• San Diego
• Vista

MUNICIPAL WATER DISTRICTS
• Carlsbad • Escondido
• Imperial Valley • San Jacinto
• San Marcos • Valley Center
• Vista

COUNTY
• San Diego
(see office)

PUBLIC UTILITY DISTRICT
• Fontana

FEDERAL AGENCY
• FortBelmont Military Reservation

PRINTED ON RECYCLED PAPER

Exhibit B

THE METROPOLITAN WATER DISTRICT

OF SOUTHERN CALIFORNIA

RESOLUTION ____

RESOLUTION OF THE BOARD OF DIRECTORS

OF THE METROPOLITAN WATER DISTRICT OF

SOUTHERN CALIFORNIA

FIXING AND ADOPTING

READINESS-TO-SERVE CHARGE

WHEREAS, at its meeting on December 14, 1993, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”) approved the rate structure and additional revenue sources described in the Board letter on the Financial Structure Study dated December 1, 1993, including a readiness-to-serve charge;

WHEREAS, providing firm revenue sources is a primary goal of such revenue structure;

WHEREAS, the amount of revenue to be raised by the readiness-to-serve charge shall be as determined by the Board and allocation of the readiness-to-serve charge among member public agencies shall be in accordance with the method established by the Board;

WHEREAS, the readiness-to-serve charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership;

WHEREAS, Metropolitan has legal authority to impose such readiness-to-serve charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act, as an availability of service charge pursuant to Section 134.5 of the Metropolitan Water District Act, and as a capital facilities fee pursuant to Section 54999.2 of the California Government Code;

WHEREAS, under authority of Sections 133 and 134 of the Metropolitan Water District Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan’s operating expenses and provide for

payment of other costs, including payment of the interest and principal of Metropolitan's bonded debt;

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, proceeds of the readiness-to-serve charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan's outstanding revenue bonds issued and to be issued pursuant to Resolution 8329;

WHEREAS, under authority of Government Code Section 54999.2, Metropolitan may impose a capital facilities fee to pay the capital cost of facilities for the provision of water service;

WHEREAS, the readiness-to-serve charge is intended to recover the debt service, not paid from taxes, of expenditures for projects needed to meet the reliability and quality needs of existing users of Metropolitan's water;

WHEREAS, under authority of Section 134.5 of the Metropolitan Water District Act, a readiness-to-serve charge imposed as an availability of service charge may be collected from the member public agencies within Metropolitan, or may be imposed as a standby charge against individual parcels within Metropolitan;

WHEREAS, under such authority, the water standby charge may be imposed on each acre of land or each parcel of land less than an acre within Metropolitan to which water is made available for any purpose by Metropolitan, whether the water is actually used or not;

WHEREAS, certain member public agencies of Metropolitan have opted in prior fiscal years to provide collection of all or a portion of their readiness-to-serve charge obligation through a Metropolitan water standby charge imposed on parcels within those member agencies;

WHEREAS, Metropolitan is willing to comply with the requests of member public agencies opting to have Metropolitan continue to levy water standby charges within their respective territories, on the terms and subject to the conditions contained herein;

WHEREAS, the provisions of the Uniform Standby Charge Procedures Act (USCPA), sections 54984-54984.9 of the Government Code, are available to any local agency authorized by law to provide water or water service, and authorized to fix, levy, or collect any standby or availability charge or assessment in connection with the provision of that service;

WHEREAS, by Resolution 8624, adopted at its meeting held January 12, 1999, Metropolitan's Board resolved and determined that the public interest and necessity require Metropolitan to develop a reliable source of revenues less susceptible to seasonal and annual variation, through imposition of a readiness-to-serve charge to be collected from the District's member public agencies; and that said readiness-to-serve charge should be in an amount sufficient to provide for payment of the debt service, not paid from ad valorem property taxes, of capital expenditures for projects needed to meet the reliability and quality needs at existing demand levels;

WHEREAS, notice was given by Resolution 8624 to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held

March 9, 1999, on the General Manager's recommendation to impose a readiness-to-serve charge for fiscal year 1999-2000 in the amount of \$80,000,000 for the period from July 1, 1999 through June 30, 2000, to be allocated among member agencies and levied as described in Resolution 8624;

WHEREAS, the readiness-to-serve charge applicable to each member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report dated December 1998, on file with Metropolitan, a copy of which was attached as Attachment 1 to Resolution 8624;

WHEREAS, the Budget and Finance Committee of the Board conducted a public hearing at its regular meeting on February 8, 1999, at which interested parties were given the opportunity to present their views regarding the proposed readiness-to-serve charge and the Engineer's Report dated December 1998; and

WHEREAS, notice of the proposed readiness-to-serve charge and of a public hearing on the date and at the time and location specified in Resolution 8624 was published prior to the hearing in various newspapers of general circulation within Metropolitan.

NOW THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the Board of Directors of The Metropolitan Water District of Southern California hereby fixes and adopts a readiness-to-serve charge for fiscal year 1999-2000.

Section 2. That said readiness-to-serve charge should be in an amount sufficient to provide for payment of the debt service, not paid from ad valorem property taxes, of capital expenditures for projects needed to meet the reliability and quality needs of existing users of the District's water; provided, however, that the amount of the readiness-to-serve charge shall be set by the Board while bearing in mind the rate management goals of Phase I of the Rate Refinement Process adopted by the Board on July 9, 1996.

Section 3. That such readiness-to-serve charge for July 1, 1999 through and including June 30, 2000 shall be a water rate equal to \$52.88 per acre-foot, which shall be charged on a historic basis for each acre-foot of water included in Metropolitan's average water deliveries to its member agencies for the three fiscal year period ending June 30, 1996. The aggregate readiness-to-serve charge for the period from July 1, 1999 through and including June 30, 2000 shall be \$80,000,000.

Section 4. That in the alternative, and without duplication, the readiness-to-serve charge for the period from July 1, 1999 through and including June 30, 2000 shall be a capital facilities fee in the aggregate amount of \$80,000,000, which shall be allocated as provided in Section 7 below.

Section 5. That this Board finds that the readiness-to-serve charge is necessary for the purpose of financing construction costs of public utility facilities furnished by Metropolitan, and does not exceed the proportionate share of the cost of the public utility facilities of benefit to each person or property being charged, based upon the proportionate share of use of those facilities, as shown in the attached Engineer's Report.

Section 6. That in the alternative, and without duplication, the readiness-to-serve charge shall be an availability service charge pursuant to Section 134.5 of the Metropolitan Water District Act.

Section 7. That the readiness-to-serve charge shall be allocated among the member public agencies in proportion to the average of Metropolitan water sales (in acre-feet) to each member public agency initially during the three fiscal year period ending June 30, 1996. Long-term seasonal storage service, cyclic storage, and direct groundwater replenishment deliveries and water taken under the one-time drought storage agreement, Cooperative Storage Program through April 12, 1994, 1993 Demonstration Program and cooperative storage purchases paid for in fiscal year 1995-96 will be subtracted from the water sales calculation. Long-term seasonal storage service water is defined as water that a member public agency leaves in storage past the end of the fiscal year through avoided production during a period of availability (normally October 1 through April 30). Metropolitan sales of reclaimed water under the Local Projects Program and groundwater under the Groundwater Recovery Program are not included in the readiness-to-serve charge water sales calculation. The allocation of the readiness-to-serve charge among member agencies is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

The amount of the readiness-to-serve charge to be imposed on each member agency for fiscal year 1999-2000 is as follows:

1999-2000 READINESS-TO-SERVE CHARGE

Member Agency	Acre-Feet ¹	RTS Share	Total RTS Charge
Anaheim	18,709	1.24%	\$ 989,416
Beverly Hills	12,941	0.86%	684,379
Burbank	16,523	1.09%	873,811
Calleguas	87,849	5.81%	4,645,852
Central Basin MWD	69,047	4.56%	3,651,517
Chino Basin MWD	34,369	2.27%	1,817,588
Coastal	39,958	2.64%	2,113,160
Compton	3,725	0.25%	196,995
Eastern	48,240	3.19%	2,551,149
Foothill	7,961	0.53%	421,014
Fullerton	7,457	0.49%	394,360
Glendale	26,456	1.75%	1,399,113
Las Virgenes MWD	18,014	1.19%	952,662
Long Beach	42,539	2.81%	2,249,655
Los Angeles	164,220	10.86%	8,684,696
MWDOC	177,584	11.74%	9,391,445
Pasadena	14,824	0.98%	783,960
San Diego CWA	407,484	26.94%	12,549,596
San Fernando	106	0.01%	5,606
San Marino	1,327	0.09%	70,178
Santa Ana	12,633	0.84%	668,090
Santa Monica	5,008	0.33%	264,846
Three Valleys MWD	58,267	3.85%	3,081,422
Torrance	20,311	1.34%	1,074,137
Upper San Gabriel	7,163	0.47%	378,812
West Basin MWD	153,155	10.12%	8,099,529
Western MWD	56,860	3.76%	3,007,014
MWD	1,512,730	100.00%	\$ 80,000,000

Section 8. That the allocation of the readiness-to-serve charge among member agencies set forth in Section 7 above is consistent with the per-acre-foot water rates imposed pursuant to Section 3 above.

Section 9. That it is the intent of the Board that:

(a) For fiscal years 1997-98 through 2000-01, a member public agency's readiness-to-serve allocation will be based on the average of Metropolitan water deliveries eligible to be included in the readiness-to-serve charge calculation to each member public agency (as described in Section 8 above and below in this Section 10) during fiscal years 1993-94, 1994-95 and 1995-96. This intent supersedes any inconsistent intent previously expressed by the Board.

¹ Acre-foot sales used for purposes of calculating RTS shares.

(b) Long-term seasonal storage service, cyclic storage, Cooperative Storage Program, direct groundwater replenishment and contractual long-term storage water deliveries will be excluded from the readiness-to-serve calculation during the year of delivery but will be included in the year of use. Member public agencies shall indicate the amount and year in which the long-term seasonal storage service, cyclic storage, Cooperative Storage Program, direct groundwater replenishment and contractual long-term storage water deliveries are used within seven years, including the year in which the water was delivered. Member public agencies overlying a common groundwater basin shall be allowed to account for their purchases as a single, common purchaser; provided that member public agencies which elect to pool their purchases for purposes of the new demand charge calculation must also pool their purchases for purposes of the readiness-to-serve charge.

(c) Notwithstanding the foregoing, in no event shall any member agency's readiness-to-serve charge be based on less than the following minimum sales (in acre feet) for each member public agency:

MEMBER AGENCY	MINIMUM RTS FLOOR (AF)	RTS %
City of Anaheim	8,386.9	1.09%
City of Beverly Hills	6,393.2	0.83%
City of Burbank	9,790.4	1.27%
Calleguas MWD	43,534.3	5.67%
Central Basin MWD	32,130.0	4.18%
Chino Basin MWD	15,200.9	1.98%
Coastal MWD	19,457.5	2.53%
City of Compton	2,512.9	0.33%
Eastern MWD	24,810.5	3.23%
Foothill MWD	3,920.4	0.51%
City of Fullerton	3,834.4	0.50%
City of Glendale	13,228.0	1.72%
Las Virgenes MWD	8,796.2	1.15%
City of Long Beach	18,902.9	2.46%
City of Los Angeles	113,942.2	14.83%
MWD of Orange County	79,695.8	10.38%
City of Pasadena	5,083.2	0.66%
San Diego CWA	203,910.3	26.55%
City of San Fernando	105.4	0.01%
City of San Marino	663.5	0.09%
City of Santa Ana	6,072.6	0.79%
City of Santa Monica	2,508.6	0.33%
Three Valleys MWD	28,908.1	3.76%
City of Torrance	10,155.7	1.32%
Upper San Gabriel VA	4,462.6	0.58%
West Basin MWD	74,669.7	9.72%
Western MWD of Riverside	27,033.7	3.52%
ALL MEMBER AGENCIES	768,109.6	100.00%

(d) In no event will deliveries of Metropolitan water which are in excess of a member agency's new demand charge base (as described in Resolution 8465, adopted by this Board on January 10, 1995) also be used in calculating such member agency's readiness-to-serve charge allocation.

Section 10. That the readiness-to-serve charge and the amount applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report filed as Attachment 1 to Resolution 8624. The Engineer's Report, which forms the basis of the readiness-to-serve charge, is on file and available for review by interested parties at Metropolitan's headquarters.

Section 11. That except as provided in Section 15 below with respect to any readiness-to-serve charge collected by means of a Metropolitan water standby charge, the readiness-to-serve charge shall be due monthly, quarterly or semiannually as agreed upon by Metropolitan and the member agency.

Section 12. That such readiness-to-serve charge may, at the request of any member agency which elected to utilize Metropolitan's standby charge as a mechanism for collecting its readiness-to-serve charge obligation in fiscal 1996-97, be collected by reimposition of the Metropolitan water standby charge at the same rates imposed in fiscal 1996-97 upon land within Metropolitan's (and such member public agency's) service area to which water is made available by Metropolitan for any purpose, whether the water is actually used or not.

Section 13. That the rates of any standby charge proposed to be levied to collect all or a portion of a member public agency's readiness-to-serve charge, per acre of land, or per parcel of land less than an acre, as shown in the Engineer's Report, may vary by member public agency, and shall not exceed the amount of Metropolitan's 1995-96 standby charge for the member public agency. The proposed standby charge applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report attached as Attachment 1 to Resolution 8624 which was prepared by a registered professional engineer certified by the State of California.

Section 14. The proposed water standby charge includes the reimposition of water standby charges on parcels with respect to which water standby charges have been imposed in fiscal year 1996-97 and annually thereafter ("pre-1997 standby charges") and the levy of standby charges on certain parcels annexed to Metropolitan and to an electing member agency after January 1997 ("annexation standby charges"). Only land within each electing member public agency with respect to which standby charges were imposed in fiscal 1996-97 will be subject to the reimposition of pre-1997 standby charges for fiscal 1999-2000. Only land annexed to Metropolitan and to an electing member public agency with respect to which standby charges were approved in accordance with the procedures of Article XIID, Section 4 of the California Constitution will be subject to the imposition or reimposition of annexation standby charges for fiscal 1999-2000. The Engineer's Report lists all parcels subject to annexation standby charges. All parcels referenced in the Engineer's Report which are not listed as being subject to annexation standby charges shall be subject to pre-1997 standby charges. These parcels are identified in a listing filed with the Executive Secretary.

Section 15. That the amount of the proposed standby charge, per parcel or per acre, applicable to eligible land within each electing member public agency as allocated in the Engineer’s Report shall be as follows:

Proposed 1999-2000 Standby Charge	
<u>Member Agency</u>	<u>Amount</u>
Anaheim	\$ 8.55
Beverly Hills	-0-
Burbank	14.20
Calleguas MWD	9.58
Central Basin MWD	10.44
Chino Basin MWD	7.59
Coastal MWD	11.60
Compton	8.92
Eastern MWD	6.94
Foothill MWD	10.28
Fullerton	10.71
Glendale	12.23
Las Virgenes MWD	8.03
Long Beach	12.16
Los Angeles	-0-
MWD of Orange Co.	10.09
Pasadena	11.73
San Diego CWA	11.51
San Fernando	7.87
San Marino	8.24
Santa Ana	7.88
Santa Monica	-0-
Three Valleys MWD	12.21
Torrance	12.23
Upper San Gabriel Valley MWD	9.27
West Basin MWD	-0-
Western MWD of Riverside Co.	9.23

Section 16. That with respect to annexation standby charges, the Engineer’s Report separates the special benefits from the general benefits and identifies each of the parcels on which a special benefit is conferred. No annexation standby charge on any parcel exceeds the reasonable cost of the proportional special benefit conferred on that parcel, as shown in the Engineer’s Report.

Section 17. That the proposed water standby charge, if imposed, shall be collected on the tax rolls, together with the ad valorem property taxes which are levied by Metropolitan for the payment of pre-1978 voter-approved indebtedness. Any amounts so collected shall be applied as a credit against the applicable member agency’s obligation to pay a readiness-to-serve charge. After such member agency’s readiness-to-serve charge allocation is fully satisfied, any additional collections shall be credited to other outstanding obligations of such member agency to Metropolitan or future readiness-to-serve obligations of such agency. Notwithstanding the provisions of Section 11 above, any member agency requesting to have all or

a portion of its readiness-to-serve charge obligation collected through standby charge levies within its territory as provided herein shall pay any portion not collected through net standby charge collections to Metropolitan within fifty days after Metropolitan issues an invoice for remaining readiness-to-serve charges to such member agency, as provided in Administrative Code Section 4507.

Section 18. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held May 11, 1999, on the General Manager's recommendation to impose a water standby charge for fiscal year 1999-2000 under authority of Section 134.5 of the Metropolitan Water District Act on land within Metropolitan at the rates, per acre of land, or per parcel of land less than an acre, specified in Section 15 above. Any such water standby charge will be imposed as a means of collecting the readiness-to-serve charge.

Section 19. That the Board will meet in regular session at its meeting on April 13, 1999, to hold a public protest hearing at which interested parties may present their views regarding any proposed standby charges and the Engineer's Report. Any member of the public may submit a written protest or other comments either at a scheduled hearing or by mail to the Executive Secretary of The Metropolitan Water District of Southern California, at Post Office Box 54153, Los Angeles, California 90054-0153. All written protests and comments presented at the hearings or received by the Executive Secretary on or before April 13, 1999, which contain a description sufficient to identify the land owned by the landowner will be given due consideration by the Board before its final action on the proposed standby charge.

Section 20. Under the approval procedures of the USCPA, which apply to the reimposition of pre-1997 standby charges, if the Board receives written protests (which protests are not withdrawn at the time of determination by the Board) representing 40 percent of the parcels subject to the proposed pre-1997 standby charge, the matter must be tabled for at least one year. If the Board receives such protests representing 15 percent or more of the parcels subject to the proposed pre-1997 charge, the Board may still adopt the charge, but the charge will be ineffective until approved by a majority of the vote in a landowner election within the District.

Section 21. That it is the intent of the Board that certain lands described in Resolution 8624 shall be exempt from water standby charges, and that the procedures for application for exemptions and consideration of such applications shall be as specified in Resolution 8624.

Section 22. That no failure to collect, and no delay in collecting, any standby charges shall excuse or delay payment of any portion of the readiness-to-serve charge when due. All amounts collected as water standby charges pursuant to this Resolution shall be applied solely as credits to the readiness-to-serve charge of the applicable member agency, with any excess collections being carried forward and credited against other outstanding obligations of such member agency to Metropolitan.

Section 23. That the readiness-to-serve charge is imposed by Metropolitan as a rate, fee or charge on its member agencies, and is not a fee or charge imposed upon real property or upon persons as incidents of property ownership, and the water standby charge is imposed within the respective territories of electing member agencies as a mechanism for collection of the

readiness-to-serve charge. In the event that the water standby charge, or any portion thereof, is determined to be an unauthorized or invalid fee, charge or assessment by a final judgment in any proceeding at law or in equity, which judgment is not subject to appeal, or if the collection of the water standby charge shall be permanently enjoined and appeals of such injunction have been declined or exhausted, or if Metropolitan shall determine to rescind or revoke the water standby charge, then no further standby charge shall be collected within any member agency and each member agency which has requested imposition of Metropolitan water standby charges as a means of collecting its readiness-to-serve charge obligation shall pay such readiness-to-serve charge obligation in full, as if imposition of such water standby charges had never been sought.

Section 24. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 25. That this Board finds that the proposed readiness-to-serve charge and other charges provided in this Resolution are exempt from the provisions of the California Environmental Quality Act (CEQA) since they are rates and other charges which are for the purposes of meeting operating expenses; purchasing or leasing supplies, equipment or materials; meeting financial reserve needs and requirements; and obtaining funds for capital projects necessary to maintain service within existing service areas; and, additionally, since they constitute the creation of government funding mechanisms which do not involve commitment to any specific project which may result in a potentially significant physical impact on the environment or which will be used to fund projects which have CEQA documentation or will have CEQA documentation in place prior to construction of any facility or facilities.

Section 26. That if any provision of this Resolution or the application to any member agency, property or person whatsoever is held invalid, that invalidity shall not affect other provisions or applications of this Resolution which can be given effect without the invalid portion or application, and to that end the provisions of this Resolution are severable.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on March 9, 1999.

Executive Secretary
The Metropolitan Water District
of Southern California

Exhibit C

METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA
RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
ADOPTING AND SUSPENDING COLLECTION OF
NEW DEMAND CHARGE FOR 1999-2000**

WHEREAS, at its meeting on December 14, 1993, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”) approved the rate structure and additional revenue sources described in the Board letter on the Financial Structure Study dated December 1, 1993, including a new demand charge, with implementation of these charges to begin in fiscal year 1995-96;

WHEREAS, providing firm revenue sources is a primary goal of such revenue structure;

WHEREAS, the amount of revenue to be raised by the new demand charge shall be as determined by the Board and allocation of such charge among member public agencies shall be in accordance with the method established by the Board;

WHEREAS, the new demand charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership;

WHEREAS, Metropolitan has legal authority to impose such new demand charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act, as a capital facilities fee pursuant to Section 54999.2 of the California Government Code and as an availability of service charge pursuant to Section 134.5 of the Metropolitan Water District Act;

WHEREAS, under authority of Sections 133 and 134 of the Metropolitan Water District Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan’s operating expenses and provide for

payment of other costs, including payment of the interest and principal of Metropolitan's bonded debt;

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, proceeds of the readiness-to-serve charge, new demand charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan's outstanding revenue bonds issued and to be issued pursuant to Resolution 8329;

WHEREAS, under authority of Government Code Section 54999.2, Metropolitan may impose a capital facilities fee to pay the capital cost of facilities for the provision of water service;

WHEREAS, the new demand charge is intended to recover the debt service of expenditures for projects needed to satisfy anticipated new demands on Metropolitan, as shown in the Nexus Study dated March 1996, prepared by Metropolitan in support of the new demand charge;

WHEREAS, under authority of Section 134.5 of the Metropolitan Water District Act, an availability of service charge may be collected from the member public agencies within Metropolitan;

WHEREAS, Metropolitan and its member agencies have engaged in a collaborative process (the "Rate Refinement Process") designed to further refine Metropolitan's rate structure and revenue sources;

WHEREAS, the Rate Refinement Process Phase I recommendations were approved by the Board on July 9, 1996;

WHEREAS, such Phase I recommendations included suspension of collection of the new demand charge while other alternatives are being pursued, with collection to resume if normal system demands exceed 2.2 million acre-feet per year and no alternative has been implemented, as further provided in this Resolution;

WHEREAS, a work group comprised of Metropolitan and member agency representatives continue to study and evaluate alternatives to the new demand charge;

WHEREAS, by Resolution 8625, adopted at its meeting held January 12, 1999, Metropolitan's Board resolved and determined that the public interest and necessity require Metropolitan to develop firm net revenues, exclusive of ad valorem property taxes, through imposition of a new demand charge on all sales representing new demands on Metropolitan, as described below, to be collected from Metropolitan's member public agencies;

WHEREAS, notice was given by Resolution 8625 to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held March 9, 1999, on the General Manager's recommendation to impose a new demand charge for fiscal year 1999-2000 in the amount of \$1,000 per acre foot for all new demands by a member agency on Metropolitan, as described in Resolution 8625;

WHEREAS, notice of the proposed new demand charge and of a public hearing on the date and at the time and location specified in Resolution 8625 was published prior to the hearings in various newspapers of general circulation within Metropolitan; and

WHEREAS, the Budget and Finance Committee of the Board conducted a public hearing at its regular meeting on February 8, 1999, at which interested parties were given the opportunity to present their views regarding the proposed new demand charge.

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the Board of Directors of Metropolitan hereby fixes and adopts a new demand charge for fiscal year 1999-2000, to be imposed on Metropolitan's member public agencies; provided, however, that collection of such charge shall be suspended until the occurrence of the events described in Section 14 below.

Section 2. That such new demand charge shall be in an amount sufficient to provide for payment of the debt service, not paid from ad valorem property taxes, of capital expenditures for projects needed to serve anticipated increases in demands on Metropolitan.

Section 3. That such new demand charge for 1999-2000 shall be a water rate of \$1,000 per acre-foot for all new demands by a member agency on Metropolitan, determined as provided in Section 7 below.

Section 4. That in the alternative, and without duplication, the new demand charge shall be a capital facilities fee in the amount of \$1,000 per acre-foot of new demand on Metropolitan, determined as provided in Section 7 below.

Section 5. That this Board finds that the proposed new demand charge is necessary for the purpose of financing construction costs of public utility facilities furnished by Metropolitan, and does not exceed the proportionate share of the cost of the public utility facilities of benefit to each person or property being charged, based upon the proportionate share of use of those facilities.

Section 6. That in the alternative, and without duplication, the new demand charge shall be an availability service charge pursuant to Section 134.5 of the Metropolitan Water District Act.

Section 7. That the new demand charge shall be incurred by a member public agency when the average of the member public agency's purchases (in acre feet) from Metropolitan in the four most recent years, including fiscal year 1999-2000, after adjustment for long-term storage water, exceed such member agency's new demand charge base. Long-term seasonal storage service water is defined as water that a member public agency leaves in storage past the end of the fiscal year through avoided production during a period of availability (normally October 1 through April 30). Long-term seasonal storage service, cyclic storage, Cooperative Storage Program, direct groundwater replenishment and contractual long-term storage water deliveries are excluded from the new demand charge calculation during the year of delivery but will be included in the year of use. Member public agencies shall indicate the amount and year in which the long-term seasonal storage service and direct groundwater replenishment are used

within seven years, including the year in which the water was delivered. Cyclic storage, Cooperative Storage Program and contractual long-term storage water deliveries are considered used in the year the water is sold. Member public agencies overlying a common groundwater basin shall be allowed to account for their purchases as a single, common purchaser; provided that member public agencies which elect to pool their purchases for purposes of the readiness-to-serve charge calculation must also pool their purchases for purposes of the new demand charge. Metropolitan sales of reclaimed water under the Local Projects Program and groundwater under the Groundwater Recovery Program shall not be included in the new demand charge calculation.

Section 8. That each member public agency’s new demand charge base (in acre-feet) shall be determined on the largest of three averages: 1) the average of its purchases from Metropolitan in the three fiscal years 1989-90 through 1991-92, excluding one-time drought storage sales; 2) the average of its purchases from Metropolitan in the four fiscal years 1989-90 through 1992-93, excluding one-time drought storage agreement sales and long-term seasonal storage deliveries attributable to May and June 1993; or 3) its readiness-to-serve charge allocation for fiscal year 1995-96. Each member public agency’s new demand charge base is as follows:

New Demand Charge Base

<u>Member Agency</u>	<u>Base Amount (AF)</u>
Anaheim	24,944
Beverly Hills	13,614
Burbank	20,446
Calleguas MWD	99,025
Central Basin MWD	115,834
Chino Basin MWD	76,265
Coastal MWD	41,441
Compton	5,026
Eastern MWD	55,603
Foothill MWD	9,610
Fullerton	12,262
Glendale	26,456
Las Virgenes MWD	18,525
Long Beach	42,539
Los Angeles	358,504
MWD of Orange Co.	243,828
Pasadena	22,638
San Diego CWA	559,247
San Fernando	903
San Marino	1,327
Santa Ana	15,840
Santa Monica	8,889
Three Valleys MWD	69,664
Torrance	20,311
Upper San Gabriel MWD	71,899
West Basin MWD	167,634
Western MWD of Riverside Co.	78,177
TOTAL	2,180,451

Section 9. That this Board finds and determines that such new demand charge base is a reasonable approximation of each member agency's demands on Metropolitan's system in fiscal year 1995-96, when the new demand charge was initiated. The calculation of the new demand charge base is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

Section 10. That upon payment of any new demand charge by a member agency, that member agency's new demand charge base shall be increased by an amount equal to the quantity of water on which the new demand charge was paid.

Section 11. That the new demand charge shall be incurred upon Metropolitan's determination that a member agency's historic average deliveries of Metropolitan water in the immediately preceding four fiscal years have exceeded such member agency's new demand charge base. New demand charges are incurred on the basis of the amount of water purchased by the member agency and are not imposed upon real property or upon a person as an incident of property ownership. The determination of new demand charges for Metropolitan water delivered in 1999-2000 shall be made early in fiscal year 2000-2001. In no event shall a new demand charge be incurred for water delivered in any fiscal year after 1994-95 if in such year the member agency has not purchased Metropolitan water in an amount at least equal to its initial new demand charge base.

Section 12. That such new demand charge shall be due and payable in the fiscal year following the year in which Metropolitan determines that the new demand charge has been incurred. Such new demand charge may be paid, without penalty, in equal monthly installments over a period of up to fifteen (15) years, provided that amounts subject to deferred payment shall bear interest at a rate determined by Metropolitan (which shall be equal to Metropolitan's weighted average cost of funds at the time of such determination), from the date due until payment is received by Metropolitan.

Section 13. That the new demand charge and the new demand charge base for each member public agency, the method of its calculation, and the project costs, cost allocations and other data used in its determination are as specified in the Nexus Study dated March 1996, which is on file and available for review by interested parties at Metropolitan's headquarters.

Section 14. That notwithstanding the foregoing, the Board hereby suspends collection of all new demand charges which may be incurred for fiscal year 1999-2000, pending imposition by Metropolitan of an area-wide fee based on new development or other alternative charge; provided, however, that if the General Manager shall determine and certify that normal system demands have reached levels in excess of 2.2 million acre-feet, collection of the new demand charge shall resume. It is the intent of the Board that if collection of the new demand charge resumes, a new Nexus Study will be prepared, including revised new demand charge base figures for the member agencies, and such collection shall not retroactively include new demand charges incurred prior to the date that the General Manager certifies that normal system demands exceed 2.2 million acre-feet.

Section 15. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 16. That this Board finds that the proposed new demand charge is exempt from the provisions of the California Environmental Quality Act (CEQA) since it constitutes the creation of government funding mechanisms which do not involve commitment to any specific project which may result in a potentially significant physical impact on the environment or which will be used to fund projects which have CEQA documentation or which will have CEQA documentation in place prior to construction of any facility or facilities.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on March 9, 1999.

Executive Secretary
The Metropolitan Water District
of Southern California